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RJR

Quarterly Report

2nd Quarter Issue

TO STOCKHOLDERS OF R. J. REYNOLDS INDUSTRIES, INC.
SECOND QUARTER, 1975

Record sales, revenues reported for first half

Second quarter also new high

R. J. Reynolds Industries, Inc., has announced record six-month sales and revenues of $2,306 million, up 9 percent over the same period last year, but net earnings for the first six months were $151 million, unchanged from last year.

Second-quarter sales and revenues were a record $1,203 million, up 6 percent over the second quarter of 1974. Net earnings for second-quarter 1975 were $90 million, a decrease of 2 percent from the same period last year.

Fully diluted net earnings per common share for the first six months were $3.02, down 6 cents from the first six months of 1974, and second-quarter fully diluted earnings were $1.78, down 9 cents from the prior year.

Consolidated earnings from operations for the first six months were $398 million, up 1 percent over the first half of 1974. For the second quarter, consolidated earnings from operations were $199 million, $30 million lower than the same period last year.

(For further details, see the letter to the stockholders on page 5.)

Dividend declared

The board of directors of R. J. Reynolds Industries, Inc., has declared a quarterly dividend of 72 cents per share on the Common Stock of the Company, payable Sept. 5, 1975, to stockholders of record Aug. 8, 1975.

The Reynolds homestead in Critz, Va., has become one of the leading historical attractions in southern Virginia, thanks to Mrs. Nancy Reynolds (left), daughter of the founder of R. J. Reynolds Tobacco Co. Chairman Wm. D. Hobbs presents to Mrs. Reynolds a special resolution of appreciation for her restoration of the site. (See story on page 6.)

RJR signs international pacts

R. J. Reynolds has signed key agreements on tobacco and tobacco products with both Russia and Bulgaria.

R. J. Reynolds Industries signed a long-term agreement with the State Committee of the USSR Council of Ministers for Science and Technology covering various aspects of the tobacco and cigarette fields.

The agreement was executed by William S. Smith, vice chairman of Reynolds Industries, and Dr. Dzhermen Gvishiani, deputy chairman of the State Committee.

Reynolds Industries and the Soviet Ministry of Agriculture also signed a protocol on tobacco growing, harvesting and processing.

The principal objective of both agreements is to expand production and improve the quality of tobacco and cigarettes on a cooperative basis.

R. J. Reynolds Tobacco Co. signed a licensing agreement with the Bulgarian state-owned tobacco corporation, Bulgartabac.

Under this agreement, Bulgartabac, which is in charge of all tobacco activity in Bulgaria, will manufacture and distribute Winston in both the soft pack and crush-proof box.

Reynolds Tobacco has agreed to

(Continued on page 6)

Employees, retirees enjoy Centennial picnic

More than 50,000 employees, retirees and their families celebrated the R. J. Reynolds Centennial in Winston-Salem June 7 at what was probably the world's largest picnic.

The day-long festivities were highlighted by a full course meal, a bustling variety of amusement rides and music by country and western singer Roy Clark, star of the popular network television show "Hee-Haw".

The crowd ate up 55 tons of food: barbecue, fried chicken, cole slaw, potato salad, baked beans and corn-on-the-cob.

They topped that off with 10,000 gallons of Hawaiian Punch and soft drinks, 100,000 ice cream bars and 250,000 bags of potato chips.

The purpose of the festive Centennial affair was to express appreciation to employees, retirees and their families for contributing to RJR's success.

And judging from the responses which continue to be heard from both employees and retirees, the purpose has not been overlooked.

"The picnic was the biggest and most fun-filled event I've ever attended," said one employee from Truck and Storage, "and it was a great way for the Company to show its appreciation for employees and retirees."

Retirees, many of whom came from distant states to be in on the festivities, have expressed similar feelings. A typical response is the one from Susie Peoples, who started work at Reynolds Tobacco in 1917: "It was a wonderful picnic," she said, "and I know it was a lot of hard work. I'm just glad the Company remembered us when they planned this."

Reynolds wins honor for support of arts

R. J. Reynolds Industries has won an Honorable Mention in the ninth annual Business in the Arts Awards program for its support of the arts.

The announcement was made in the August issue of Esquire magazine, which is a co-sponsor of the program along with the Business Committee for the Arts, Inc.

RJR's contributions to the arts include a gift of the noted Andrew Wyeth painting "Sea Dog" (1971) to the North Carolina Museum of Art, and active support of such organizations as the North Carolina School of the Arts, the Southeastern Center for Contemporary Arts, the Lincoln Center for the Performing Arts in New York City, the Winston-Salem Arts Council and Old Salem.

Reynolds executives brief top security analysts

Addressing security analysts in New York, Chicago, Boston and Richmond, R. J. Reynolds Industries Chairman Colin Stokes said that efforts are well underway to increase RJR's share of the domestic and international cigarette markets.

Stokes said, "We see enormous potential for R. J. Reynolds in the area of international tobacco." He said the objective is to capitalize "on the excellent volume potential available in other parts of the world, where the cigarette market is not as highly developed as it is in this country."

J. Paul Sticht, Reynolds Industries president, said the international market is three times the size of the U. S. market, and that the foreign growth rate is about double the domestic rate.

With Reynolds cigarette brands being sold in more than 140 countries and now being manufactured in 17 nations outside the U. S., Sticht said, "We now feel we are positioned to get a more significant share of the international market. With this base, we are beginning a concerted market-by-market program to strengthen our franchises around the world."

Toward this end, the Company has separated its international and domestic efforts in tobacco.

Stokes pointed out that William S. Smith was promoted from chairman of Reynolds Tobacco to vice chairman of the parent corporation in order to assume responsibility for international tobacco operations.

There are also good possibilities for expanding the Company's share of the cigarette market on the domestic front, Sticht said. However, he added, the domestic market is more sophisticated and more exploratory than ever before.

He also stressed that the cigarette business has become highly fashion conscious. In many ways, he said, "fashion is becoming almost as important a consideration in the cigarette business as it is in the apparel business."

The essential need to be sensitive to consumer demand, Sticht said, is why Reynolds Tobacco is "doing more than just responding to the increasingly diverse preferences of smokers. We are trying hard to anticipate changes in these preferences and respond to them before anyone else does."

In this respect, Sticht referred to the stylish, 120mm More cigarette as "the most recent example we have to demonstrate our innovative abilities."

With More, he said, "we did not just introduce a cigarette, we created a whole new market segment."

He noted, too, that while brand leadership is cyclical, "we want to make sure there is always a Reynolds brand heading for the top spot in every category."

Turning to specific growth possibilities for Winston, Salem and Vantage, as well as More and the new Dawn 120, Sticht said, "we think our brand lineup demonstrates the fact that we believe in brand succession."

Reynolds now has about one-third of the total domestic cigarette market, Sticht said, but "we intend to improve our share."

Sticht and Stokes also brought the analysts up to date on the Corporation's four other subsidiaries:

Sea-Land Service, Inc.: Though 1974 was a good year for Sea-Land, the subsidiary has not reached its full potential. There is ample room for growth in the $80 billion annual world shipping market. World shipping is becoming less cyclical as nations become more developed and interdependent. With this in mind, Sea-Land is systematically entering new trade routes.

Aminoil: Contributions by Aminoil to net earnings have been quite significant, even though the subsidiary pays very high foreign taxes. Energy will remain a good area for potential growth for the foreseeable future, and Aminoil is actively seeking to develop petroleum reserves outside the Middle East.

RJR Foods: Progress is being made in consolidating RJR Foods marketing and distribution facilities. The subsidiary is also seeking, through internal development and acquisition, new broad-based consumer products to increase its volume base.

RJR Archer: This subsidiary continues to be a valuable supplier of packaging materials to R. J. Reynolds' other businesses. Current plans are to strengthen the consumer wrap business and expand the printing and packaging capabilities to handle both inside and outside customers.

New Sunkist drink introduced

Sunkist Sunshine Gold, a new fruit drink developed jointly by RJR Foods, Inc., and Sunkist Growers, Inc., is being introduced into test markets in St. Louis and Dallas.

Sunkist Sunshine Gold contains 15 percent fruit juice—blended citrus and other fruit juices with other natural flavors—and provides consumers with a unique, proprietary flavor. The product is enriched with vitamin C and is available in 46-ounce cans.

The new product was developed under a manufacturing and marketing agreement between RJR Foods and Sunkist Growers, a marketing cooperative of more than 8,000 citrus growers in California and Arizona. Under the agreement, RJR Foods is responsible for production, marketing and distribution of citrus-based products that are jointly developed and which carry the "Sunkist" trademark.

SUMMARY OF CONSOLIDATED RESULTS
(Dollars in Thousands)

Three Months Ended June 30			Six Months Ended June 30	
1975	1974		1975	1974
		Net sales and revenues:		
$ 845,136	$ 721,106	Tobacco	$1,584,158	$1,364,482
193,267	228,330	Transportation	374,926	419,168
92,615	113,350	Petroleum	203,369	198,743
72,181	68,185	Other	143,285	139,051
$1,203,199	$1,130,971	Consolidated	$2,305,738	$2,121,444
		Earnings from operations:[1]		
$ 135,348	$ 111,753	Tobacco	$ 250,914	$ 210,080
26,854	48,055	Transportation	42,806	63,020
29,239	62,978	Petroleum	90,334	107,675
7,216	5,441	Other	13,926	13,458
$ 198,657	$ 228,227	Consolidated	$ 397,980	$ 394,233
$ 187,549	$ 217,374	Earnings before provision for income taxes	$ 374,671	$ 371,168
97,687	125,728	Provision for income taxes	223,356	219,753
89,862	91,646	Net earnings	151,315	151,415
2,876	3,962	Preferred dividends	6,601	7,931
$ 86,986	$ 87,684	Net earnings applicable to Common Stock	$ 144,714	$ 143,484
		Net earnings per common share:		
$1.98	$2.09	Primary[2]	$3.34	$3.41
1.78	1.87	Fully diluted[3]	3.02	3.08
		Average number of common shares outstanding:		
		Primary[2]	43,270,521	42,135,990
		Fully diluted[3]	50,161,683	49,124,211

Notes:

[1] Earnings from operations are earnings before interest and debt expense, other income and expense, and provision for income taxes.

[2] Primary earnings per share are determined by dividing net earnings applicable to Common Stock by the average number of common shares and equivalent common shares outstanding.

[3] Fully diluted earnings per share are calculated using the "treasury stock" method. This method assumes that all shares of the Preferred Stock outstanding during the period were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or period-end closing price of the Common Stock. The treasury shares thus assumed to have been purchased reduce the number of fully diluted shares that would otherwise be outstanding. The market price of the Company's Common Stock was approximately one-third higher at June 30, 1975, than the average price during the first six months of 1974. Therefore, considerably fewer treasury shares are assumed purchased in 1975 under this calculation, resulting in the higher average number of fully diluted shares outstanding.

Dear Fellow Stockholders:

The Company attained record six-month sales and revenues of $2,306 million, up 9 percent over the same period last year, but net earnings for the first six months were $151 million, unchanged from last year.

Second-quarter sales and revenues were $1,203 million, up 6 percent over the second quarter of 1974, and were a second-quarter record for the Company. Net earnings for the second quarter were $90 million, a decrease of 2 percent from the same period last year.

Fully diluted net earnings per common share for the first six months were $3.02, down 6 cents from the first six months of 1974, and second-quarter fully diluted earnings were $1.78, down 9 cents from the prior year.

Consolidated earnings from operations for the first six months were $398 million, up 1 percent over the first half of 1974. For the second quarter, consolidated earnings from operations were $199 million, $30 million lower than the same period last year. (Earnings from operations are earnings before interest and debt expense, other income and expense, and provision for income taxes.)

The Company's effective tax rate for the first six months of 1975 was 60 percent, essentially unchanged from the same period last year. The Company's estimated tax rate is customarily higher than the statutory U. S. federal income tax rate because of high foreign taxes paid on earnings from petroleum operations. During the second quarter, a change in the interpretation of the Company's tax and concession agreement with the government of Iran caused a change in expense classification, which reduced both petroleum earnings from operations and the consolidated tax provision by approximately $23 million. The change had no effect on net earnings.

Tobacco sales for the first six months were $1,584 million, 16 percent greater than in the first half of 1974. Sales for the second quarter were $845 million, up 17 percent over the same period last year.

Volume increases, including the sales recorded by new cigarette brands recently introduced and price increases instituted during 1974, were the primary causes of improved tobacco sales.

The Company's new 120mm More brand, introduced nationally in April of this year, is selling at a rate of one percent of the domestic cigarette market. A new addition to the Company's 120mm category, Dawn 120, a cigarette tailored to meet female taste, was introduced into test market in May.

Earnings from operations of the tobacco business were $251 million for the six-month period, up 19 percent over the first six months of 1974. Second-quarter earnings from operations were $135 million, 21 percent higher than the same period last year. The effect of 1974 price increases on earnings from operations was partially offset by continued increases in leaf and other operating costs, including costs associated with developing and introducing new brands.

Transportation revenues were $375 million for the six months and $193 million for the second quarter, down $44 million and $35 million respectively from comparable 1974 periods. The reduced revenues reflect the absence of revenue from the Puerto Rico service, which was sold in September, 1974, and which contributed $54 million for the first six months of 1974 and $29 million for the second quarter of 1974.

Lower volume, particularly in the North Atlantic and transpacific services, was more than offset during the six months by improved rates. The lower volume experienced during the reporting periods was due to the generally depressed world economic situation. However, there was some improvement in volume late in the second quarter. Transportation operations were expected to respond to any upturn in world trade, which has traditionally tended to lag behind indicators in the domestic economy.

Transportation earnings from operations for the first six months and second quarter were $43 million and $27 million, down $20 million and $21 million respectively from 1974 levels for the same periods.

Sales from the Company's petroleum operations for the first six months were $203 million, up 2 percent over the same period in 1974. Second-quarter sales were $93 million, down 18 percent from the second quarter of 1974. The decline in second-quarter sales was attributed to lower volume due to a lessening demand for oil products and high inventory levels prevalent in the marketplace.

Petroleum earnings from operations were $90 million for the first six months and $29 million for the second quarter, down $17 million and $34 million respectively from 1974 levels. The decline in earnings from operations reflects lower sales volume and the previously mentioned change in classification of certain costs from income taxes to operating expenses in the second quarter.

Six-month sales for the Company's other businesses (foods and beverages and aluminum products and packaging) were $143 million, up 3 percent over the first six months of 1974. Second-quarter sales were $72 million, a gain of 6 percent over the same period of last year.

Unit volume in these businesses during the first six months of 1975 has been generally lower than last year, reflecting reduced levels of consumer spending.

Earnings from operations from these businesses for the first six months were $14 million, a gain of 3 percent, with the second quarter rising 33 percent to $7 million. The second-quarter gain in sales and earnings from operations reflects the cumulative effects of price increases in both businesses.

Comparative consolidated amounts, with 1975 subject to year-end adjustment and audit, are shown in the accompanying table.

A dividend of 72 cents per share on the Common Stock has been declared, payable September 5 to stockholders of record August 8.

Colin Stokes

Chairman

July 17, 1975

Members of the Reynolds family and of the R. J. Reynolds Tobacco board of directors gather at a reception at Critz, Va.

Tobacco board makes a nostalgic visit to Critz

As part of the company's centennial celebration, the board of R. J. Reynolds Tobacco Co. met recently in Critz, Va., at the restored home of Richard Joshua Reynolds, who founded the tobacco company in 1875.

The board adopted a resolution at the meeting expressing its thanks to Mrs. Nancy S. Reynolds, the founder's daughter, for restoring the homestead.

Mrs. Reynolds contributed many of her own antiques and collected items from other members of the Reynolds family. Each room in the homestead now features an original family article. Among the items featured is the bed in which Richard Joshua Reynolds was born.

As an added attraction, Reynolds Tobacco Chairman Wm. D. Hobbs announced that the company will give the Reynolds homestead an exhibit which traces the history of tobacco from 15,000 years before Columbus to the present.

The exhibit, to be installed this summer, will include photographs, drawings and artifacts. It will be an 11-stage display and will occupy two rooms in the Reynolds birthplace.

The RJR homestead was built in 1843 and restored in 1970. Open to the public from June through October, it has become one of the leading historical attractions of southern Virginia. Viewing times are on Saturdays and Sundays from 1 to 5 p.m. Appointments for other times are available to groups of 10 or more. The phone number is 1-703-694-3418.

International pacts

(Continued from page 1)

provide technical assistance for mechanizing Bulgaria's tobacco growing, harvesting and processing operations.

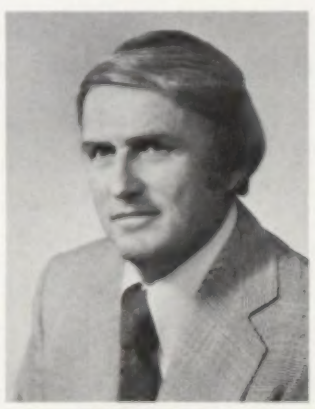
Bulgartabac is a major exporter of cigarettes to those countries belonging to the Council for Mutual Economic Assistance (COMECON), which includes Czechoslovakia, East Germany, Hungary, the Mongolian People's Republic, Romania and the USSR. Bulgaria is also a COMECON member.

Iron Curtain countries consumed about one trillion, 200 billion cigarettes last year and total cigarette consumption outside the United States was about three trillion, 200 billion.

The Reynolds-Bulgartabac agreement is the first such arrangement involving tobacco and tobacco products that Bulgaria has ever made with another manufacturer.

Hiltzheimer named Sea-Land president

Charles I. Hiltzheimer has been elected president and chief operating officer of Sea-Land Service, Inc., and Paul F. Richardson, who formerly held that position, has been promoted to vice chairman of the company.



Hiltzheimer

Richardson

Sea-Land Chairman and Chief Executive Officer Michael R. McEvoy said that the appointments represent a first step in a company-wide realignment to better meet Sea-Land's anticipated growth and expansion in the years ahead.

In his new position, Hiltzheimer will be responsible for Sea-Land's worldwide operations and marketing activities, according to McEvoy.

Richardson, as vice chairman, will be responsible for the company's increasing public affairs activities.

Hiltzheimer has served since May, 1967, as Pacific Group vice president, with offices in Seattle. He will relocate to the company's headquarters in Menlo Park, N. J.

Richardson has served as president of Sea-Land Service since April, 1970. In addition to numerous other industry positions, he has played an important role as chairman of the National Maritime Council and of the New Jersey State Chamber of Commerce. In his new position, he will continue to serve in both of these posts.

Sea-Land also announced additional appointments: Henry L. Gilbertson as executive vice president, Atlantic Group; John R. Pyron, executive vice president, Pacific Group; David J. Tolan, executive vice president, Caribbean/Domestic Group; J. Scott Morrison, executive vice president, Business and Planning Development; and Bernard E. Czachowski, vice president, Land Operations Services.

Dawn 120 breaks into market

Recognizing that women now number nearly half the nation's smokers, R. J. Reynolds Tobacco Co. has introduced Dawn 120, the first 120mm cigarette for women.

Dawn 120 is already gaining wide acceptance by women smokers in San Francisco, where it was introduced. "Our surveys show that women feel that Dawn 120 is made for today's women, and that they appreciate the fact that Dawn 120 smokes five minutes longer," says Alexy Ritchy, Dawn 120 brand manager.

Reynolds executives said at a press conference in San Francisco that women now comprise 43 percent of the smoking population, and that today women are demanding top value for their money. Women smokers in San Francisco are prime examples of this new development, the executives said.

James F. Hind, director of Marketing Planning and Development, said, "We believe that Dawn 120, with its full flavor, distinctive appearance and added value, will satisfy this demand."

Although selling for the same price as 100mm brands, Dawn 120 offers about five minutes more smoking time per cigarette than an average 100mm because of its extra length and slow-burning characteristics.

"Women are a significant force in the cigarette market," Hind said, "but until now they have been forced to choose between bland-tasting 'woman's' cigarettes or brands whose appearance had little to set them apart from the other 140 brands on the market.

"With Dawn 120, we have become the first to offer women a cigarette which combines full tobacco flavor with a look that is distinctively different," he said.

The new brand, available in both regular and menthol versions, has the extra length and slimness unique to 120mm cigarettes. Each Dawn 120 is wrapped in paper featuring pinstripes, which the company believes will set it apart as a woman's cigarette even after a few minutes of smoking has shortened its length.

RJR Archer adds important new printing capability

An 85,000-square-foot addition to RJR Archer's Plant 604 in Winston-Salem has been completed. It will house the company's new rotogravure cylinder making facilities that are expected to be in operation in August.

In the past, Archer did not have the capability of engraving the cylinders used in its printing operations. James H. Corrigan Jr., president of Archer, said that the new cylinder operation will give the company this much-needed capability. "With our own cylinder engraving shop, we will be able to meet customer packaging design specifications without having to rely solely on outside engravers," he noted.

Cylinder engraving is an electrolytic process used to produce a specific design on a coppered cylinder. Once the process is completed, the cylinder itself is installed on one of Archer's massive gravure presses, used to print designs on packaging materials.

The cylinder making shop will occupy approximately 12,000 square feet of the new addition, with most of the remainder being used for storing product inventory.

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Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent: The Chase Manhattan Bank, N.A., 1 New York Plaza, 14th Floor, New York, N.Y. 10015, or First Jersey National Bank, 1 Exchange Place, Jersey City, N.J. 07303.

Communications concerning dividends and change of address should be directed to R. J. Reynolds Industries, Inc., Shareholder Services Dept., Box 2959, Winston-Salem, N.C. 27102.

Independent medical study clears the air about non-smokers

A recent independent scientific study says the facts dispel the anti-smoking claim that non-smokers are harmed by cigarette smoke in public places.

The study, done by two doctors from Harvard University, showed that non-smokers in public places breathe in only minute amounts of cigarette smoke.

The heaviest smoke concentration the doctors observed was in cocktail lounges. This concentration was equivalent to .009 filter cigarettes an hour, meaning that a non-smoker could sit in a cocktail lounge for 100 hours and not inhale the equivalent of one filter cigarette, the doctors said.

The New England Medical Journal, which published the study, notes that such a level of exposure "has no known serious association with disease."

The study was supported by the Massachusetts Lung Association.

On another health-related front, a survey by the National Enquirer has found that more than half the administrators at the National Cancer Institute (NCI) are smokers.

"While they're busy dreaming up ways to stop Americans from smoking, 51 percent of those on the executive floor of the National Cancer Institute headquarters building are puffing away on cigarettes, cigars or pipes," the Enquirer noted. Within the Institute, the highest concentration of smokers—67 percent—work at the Cancer Communication Office, which sends out information on NCI programs.

On the government side, the House Commerce Committee has voted to remove the jurisdiction of the Consumer Product Safety Commission to deal with cigarettes. According to the Wall Street Journal, "the Commission has been arguing all along that it lacks authority to rule whether cigarettes are health hazards. But the courts forced it to consider petitions that raise those questions."

More steadily increasing market share

After only three months on the national market, More, the first 120mm cigarette, is living up to its name as smokers buy more and more Mores.

The brand is already selling at a rate equivalent to a one percent share of the U. S. cigarette market, equal to total sales of almost 6 billion cigarettes a year.

"More's performance has been excellent in so short a time, especially considering that it is competing with more than 100 established brands and brand variations," said Wm. D. Hobbs, chairman of R. J. Reynolds Tobacco Co.

"We feel strongly that More is one of the most innovative, unique cigarettes ever offered American smokers," he said. "Smokers must agree, because it is obvious that More has created significant consumer interest."

Test marketing of More began Oct. 7 in Oklahoma City and extended rapidly into the largest metropolitan areas of the country. Outstanding acceptance during the test period prompted the company to move the brand's national introduction up to April 14.

"Favorable consumer reaction about More during its test marketing was much like that we had when Winston, now the nation's best-selling cigarette, was introduced in 1954," Hobbs said. "And I'm happy to say it has continued since More became a national brand."

More, available in both regular and menthol versions, has several distinctive features apart from its overall length. It has a slim appearance and its wrapper is burnished-brown paper—features which Reynolds believes give it a stylish look.

More also delivers over 50 percent more puffs than the average 100mm cigarette, although it sells for the same price.

RJR Quarterly Report

Second Quarter, 1975

Published quarterly by R. J. Reynolds Industries, Inc., Box 2959, Winston-Salem, N.C. 27102.

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